

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
21ST CENTURY CHARTER SCHOOL AT FALL CREEK
MARION COUNTY, INDIANA
July 1, 2005 to June 30, 2007



FILED
06/26/2008

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OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|---------------------------------------|--|--|
| Treasurer | Keri J. Hunter Allison Collins Melissa Bechtel Dana Johnson | 07-01-05 to 03-22-06 03-23-06 to 06-13-06 06-14-06 to 12-10-07 12-11-07 to 06-30-08 |
| Chief Executive Officer of Schools | Kevin Teasley | 07-01-05 to 06-30-08 |
| President of the School Board | Don Laskowski Mary Clark (interim) | 07-01-05 to 10-11-07 10-11-07 to 06-30-08 |



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDIANAPOLIS, INDIANA 46204-2769

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE 21ST CENTURY CHARTER
SCHOOL AT FALL CREEK, MARION COUNTY, INDIANA

We have examined the financial information presented herein of the 21st Century Charter School At Fall Creek (School Corporation), for the period of July 1, 2005 to June 30, 2007. The School Corporation's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the School Corporation for the years ended June 30, 2006 and 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

May 27, 2008

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
SCHEDULE OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2006

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursement) Receipts and Changes in Net Assets |
|--|---------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Totals |
| Governmental activities: | | | | |
| Instruction | \$ 758,482 | \$ - | \$ 10,526 | \$ (747,956) |
| Support services | 1,384,254 | 33,527 | 84,487 | (1,266,240) |
| Community services | 430 | - | - | (430) |
| Debt service | 15,086 | - | - | (15,086) |
| Total governmental activities | <u>\$ 2,158,252</u> | <u>\$ 33,527</u> | <u>\$ 95,013</u> | <u>(2,029,712)</u> |
| General receipts: | | | | |
| Property taxes | | | | 520,779 |
| Other local sources | | | | 60,469 |
| State aid | | | | 1,132,481 |
| Bonds and loans | | | | 240,441 |
| Grants and contributions not restricted to specific programs | | | | 124,030 |
| Sale of property, adjustments, and refunds | | | | 571 |
| Investment earnings | | | | <u>40</u> |
| Total general receipts | | | | <u>2,078,811</u> |
| Change in net assets | | | | 49,099 |
| Net assets - beginning | | | | <u>8,046</u> |
| Net assets - ending | | | | <u>\$ 57,145</u> |
| <u>Assets</u> | | | | |
| Cash and investments | | | | <u>\$ 57,145</u> |
| <u>Net Assets</u> | | | | |
| Unrestricted | | | | <u>\$ 57,145</u> |

The accompany notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
SCHEDULE OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2007

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursement) Receipts and Changes in Net Assets |
|--|---------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Totals |
| Governmental activities: | | | | |
| Instruction | \$ 901,158 | \$ - | \$ 10,410 | \$ (890,748) |
| Support services | 1,519,767 | 15,450 | 100,410 | (1,403,907) |
| Community services | 968 | - | - | (968) |
| Debt service | 40,303 | - | - | (40,303) |
| Total governmental activities | <u>\$ 2,462,196</u> | <u>\$ 15,450</u> | <u>\$ 110,820</u> | <u>(2,335,926)</u> |
| General receipts: | | | | |
| Property taxes | | | | 569,559 |
| Other local sources | | | | 126,313 |
| State aid | | | | 1,439,420 |
| Grants and contributions not restricted to specific programs | | | | 184,712 |
| Sale of property, adjustments, and refunds | | | | <u>332</u> |
| Total general receipts | | | | <u>2,320,336</u> |
| Change in net assets | | | | (15,590) |
| Net assets - beginning | | | | <u>57,145</u> |
| Net assets - ending | | | | <u>\$ 41,555</u> |
| <u>Assets</u> | | | | |
| Cash and investments | | | | <u>\$ 41,555</u> |
| <u>Net Assets</u> | | | | |
| Unrestricted | | | | <u>\$ 41,555</u> |

The accompany notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

| | General | Textbook Rental | Other | Totals |
|--|------------|--------------------|-----------|------------|
| Receipts: | | | | |
| Local sources | \$ 537,335 | \$ - | \$ 77,480 | \$ 614,815 |
| State sources | 1,143,007 | 12,074 | 27,493 | 1,182,574 |
| Federal sources | 16,370 | - | 152,580 | 168,950 |
| Sale of property, adjustments and refunds | 571 | - | - | 571 |
| Total receipts | 1,697,283 | 12,074 | 257,553 | 1,966,910 |
| Disbursements: | | | | |
| Current: | | | | |
| Instruction | 616,118 | - | 142,364 | 758,482 |
| Support services | 1,276,297 | 12,074 | 95,883 | 1,384,254 |
| Community services | 430 | - | - | 430 |
| Debt services | 15,086 | - | - | 15,086 |
| Total disbursements | 1,907,931 | 12,074 | 238,247 | 2,158,252 |
| Excess (deficiency) of receipts over disbursements | (210,648) | - | 19,306 | (191,342) |
| Other financing sources (uses): | | | | |
| Bonds and loans | 240,441 | - | - | 240,441 |
| Transfers in | - | - | 148 | 148 |
| Transfers out | - | - | (148) | (148) |
| Total other financing sources (uses) | 240,441 | - | - | 240,441 |
| Excess of receipts and other financing sources over disbursements and other financing uses | 29,793 | - | 19,306 | 49,099 |
| Cash and investments - beginning | 22,345 | 5,007 | (19,306) | 8,046 |
| Cash and investments - ending | \$ 52,138 | \$ 5,007 | \$ - | \$ 57,145 |
| <u>Cash and Investment Assets - Ending</u> | | | | |
| Cash and investments | \$ 52,138 | \$ 5,007 | \$ - | \$ 57,145 |
| <u>Cash and Investment Fund Balance - Ending</u> | | | | |
| Unrestricted | \$ 52,138 | \$ 5,007 | \$ - | \$ 57,145 |

The accompany notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

| | General | Textbook Rental | Title I | Other | Totals |
|---|------------------|--------------------|-----------------|-----------------|------------------|
| Receipts: | | | | | |
| Local sources | \$ 629,364 | \$ - | \$ - | \$ 81,957 | \$ 711,321 |
| State sources | 1,449,831 | 12,922 | - | 47,587 | 1,510,340 |
| Federal sources | - | - | 143,500 | 81,113 | 224,613 |
| Sale of property, adjustments and refunds | 332 | - | - | - | 332 |
| Total receipts | <u>2,079,527</u> | <u>12,922</u> | <u>143,500</u> | <u>210,657</u> | <u>2,446,606</u> |
| Disbursements: | | | | | |
| Current: | | | | | |
| Instruction | 773,608 | - | 100,578 | 26,972 | 901,158 |
| Support services | 1,339,230 | - | 33,842 | 146,695 | 1,519,767 |
| Community services | 968 | - | - | - | 968 |
| Debt services | 40,303 | - | - | - | 40,303 |
| Total disbursements | <u>2,154,109</u> | <u>-</u> | <u>134,420</u> | <u>173,667</u> | <u>2,462,196</u> |
| Excess (deficiency) of receipts over disbursements | <u>(74,582)</u> | <u>12,922</u> | <u>9,080</u> | <u>36,990</u> | <u>(15,590)</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | 36,990 | - | - | - | 36,990 |
| Transfers out | - | - | - | (36,990) | (36,990) |
| Total other financing sources (uses) | <u>36,990</u> | <u>-</u> | <u>-</u> | <u>(36,990)</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | <u>(37,592)</u> | <u>12,922</u> | <u>9,080</u> | <u>-</u> | <u>(15,590)</u> |
| Cash and investments - beginning | <u>52,138</u> | <u>5,007</u> | <u>-</u> | <u>-</u> | <u>57,145</u> |
| Cash and investments - ending | <u>\$ 14,546</u> | <u>\$ 17,929</u> | <u>\$ 9,080</u> | <u>\$ -</u> | <u>\$ 41,555</u> |
| <u>Cash and Investment Assets - Ending</u> | | | | | |
| Cash and investments | <u>\$ 14,546</u> | <u>\$ 17,929</u> | <u>\$ 9,080</u> | <u>\$ -</u> | <u>\$ 41,555</u> |
| <u>Cash and Investment Fund Balance - Ending</u> | | | | | |
| Unrestricted | <u>\$ 14,546</u> | <u>\$ 17,929</u> | <u>\$ 9,080</u> | <u>\$ -</u> | <u>\$ 41,555</u> |

The accompany notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

| | <u>Private-Purpose Trust Funds</u> |
|---|--|
| Additions: | |
| Contributions: | |
| Other | \$ 398 |
| Deductions: | |
| Administrative and general | <u>64,431</u> |
| Deficiency of total additions over total deductions | (64,033) |
| Cash and investment fund balance - beginning | <u>64,033</u> |
| Cash and investment fund balance - ending | <u><u>\$ -</u></u> |
| Net assets: | |
| Cash and investments | <u><u>\$ -</u></u> |

The accompany notes are an integral part of the financial information.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

Note 2. Fund Accounting

A. Government-Wide and Fund Financial Schedules

Government-Wide Financial Schedules

The Schedules of Activities and Net Assets – Cash and Investment Basis display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Schedules

Fund financial schedules of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial schedules are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial schedules. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial schedules.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The textbook rental fund accounts for all receipts of fees collected for rent of textbooks and workbooks furnished to students; also, to account for all disbursements for purchase of textbooks, for repair of textbooks and for workbooks to be used with rented textbooks furnished to students for a designated fee.

The title I fund is used to account for the proceeds of a federal grant award and its related disbursements used to support schools with high numbers or high percentages of poor children to help ensure that all children meet challenging state academic standards.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
NOTES TO FINANCIAL INFORMATION
(Continued)

Additionally, the School Corporation reports the following fund types:

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the School Corporation or the students who attend the School Corporation.

B. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, and fiduciary fund financial schedules are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial schedules.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial schedules for governmental funds would use the modified accrual basis of accounting, while the fund financial schedules for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund schedules to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The School Corporation has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial schedules. Exceptions to this general rule are payments-in-lieu of taxes.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

Note 4. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (Indiana Code 5-13-9) authorizes the School Corporation to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Interfund Transfers

Interfund transfers for the years ended June 30, 2006 and 2007, were as follows:

| Transfer From | Transfer To | 2006 | 2007 |
|--------------------------|--------------------------|---------------|------------------|
| Other governmental funds | Other governmental funds | \$ 148 | \$ - |
| General Fund | Other governmental funds | - | 36,990 |
| Totals | | <u>\$ 148</u> | <u>\$ 36,990</u> |

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
NOTES TO FINANCIAL INFORMATION
(Continued)

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Cost

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

Note 7. Restatements and Reclassifications

For the year ended June 30, 2006, certain changes have been made to the financial schedules to more appropriately reflect financial activity of the School Corporation. The following schedule presents a summary of restated beginning balances by opinion unit.

| Opinion Unit | Balance as Reported June 30, 2005 | Fund Reclassification | Balance as Restated July 1, 2005 |
|-----------------------|--|--------------------------|---|
| Governmental funds | \$ 72,056 | \$ (64,010) | \$ 8,046 |
| Private-purpose trust | - | 64,033 | 64,033 |
| Agency | 23 | (23) | - |

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

| | School Lunch | Alternative Education Grant Revenue | Contribution Fund | Gifts and Grants | Title I | Title I | Title VI |
|---|-----------------|---|----------------------|---------------------|---------|---------|----------|
| Receipts: | | | | | | | |
| Local sources | \$ 33,480 | \$ - | \$ 19,000 | \$ 25,000 | \$ - | \$ - | \$ - |
| State sources | 5,899 | 21,594 | - | - | - | - | - |
| Federal sources | 66,514 | - | - | - | 4,645 | 58,386 | 704 |
| Total receipts | 105,893 | 21,594 | 19,000 | 25,000 | 4,645 | 58,386 | 704 |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | - | 17,995 | 4,472 | 20,833 | 6,392 | 49,405 | 2,089 |
| Support services | 17,890 | 3,599 | 27,346 | 4,167 | - | 9,129 | 277 |
| Total disbursements | 17,890 | 21,594 | 31,818 | 25,000 | 6,392 | 58,534 | 2,366 |
| Excess (deficiency) of receipts over disbursements | 88,003 | - | (12,818) | - | (1,747) | (148) | (1,662) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | - | - | - | - | - | 148 | - |
| Transfers out | - | - | - | - | (148) | - | - |
| Total other financing sources (uses) | - | - | - | - | (148) | 148 | - |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 88,003 | - | (12,818) | - | (1,895) | - | (1,662) |
| Cash and investments - beginning | (88,003) | - | 12,818 | - | 1,895 | - | 1,662 |
| Cash and investments - ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Cash and Investment Assets - Ending</u> | | | | | | | |
| Total cash and investment assets - ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Cash and Investment Fund Balance - Ending</u> | | | | | | | |
| Total cash and investment fund balance - ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006
 (Continued)

| | Drug Free Schools | Drug Free Schools | T 1 Lines | Title II | Enhancing Education Through Technology | ESEA Title V | Totals |
|---|----------------------|----------------------|--------------|----------|---|-----------------|-----------|
| Receipts: | | | | | | | |
| Local sources | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 77,480 |
| State sources | - | - | - | - | - | - | 27,493 |
| Federal sources | 1,468 | - | - | 19,866 | 997 | - | 152,580 |
| Total receipts | 1,468 | - | - | 19,866 | 997 | - | 257,553 |
| Disbursements: | | | | | | | |
| Current: | | | | | | | |
| Instruction | 745 | 751 | - | 25,963 | - | 13,719 | 142,364 |
| Support services | 1,617 | 150 | 4,616 | 22,009 | 2,339 | 2,744 | 95,883 |
| Total disbursements | 2,362 | 901 | 4,616 | 47,972 | 2,339 | 16,463 | 238,247 |
| Excess (deficiency) of receipts over disbursements | (894) | (901) | (4,616) | (28,106) | (1,342) | (16,463) | 19,306 |
| Other financing sources (uses): | | | | | | | |
| Transfers in | - | - | - | - | - | - | 148 |
| Transfers out | - | - | - | - | - | - | (148) |
| Total other financing sources (uses) | - | - | - | - | - | - | - |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (894) | (901) | (4,616) | (28,106) | (1,342) | (16,463) | 19,306 |
| Cash and investments - beginning | 894 | 901 | 4,616 | 28,106 | 1,342 | 16,463 | (19,306) |
| Cash and investments - ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Cash and Investment Assets - Ending</u> | | | | | | | |
| Total cash and investment assets - ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Cash and Investment Fund Balance - Ending</u> | | | | | | | |
| Total cash and investment fund balance - ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007

| | School Lunch | Alternative Education | Contribution Fund | Title VI | Totals |
|---|-----------------|--------------------------|----------------------|----------|-----------|
| Receipts: | | | | | |
| Local sources | \$ 15,449 | \$ - | \$ 66,508 | \$ - | \$ 81,957 |
| State sources | 6,936 | 40,651 | - | - | 47,587 |
| Federal sources | 80,552 | - | - | 561 | 81,113 |
| Total receipts | 102,937 | 40,651 | 66,508 | 561 | 210,657 |
| Disbursements: | | | | | |
| Current: | | | | | |
| Instruction | - | 26,972 | - | - | 26,972 |
| Support services | 102,937 | 13,679 | 29,518 | 561 | 146,695 |
| Total disbursements | 102,937 | 40,651 | 29,518 | 561 | 173,667 |
| Excess (deficiency) of receipts over disbursements | - | - | 36,990 | - | 36,990 |
| Other financing sources (uses): | | | | | |
| Transfers out | - | - | (36,990) | - | (36,990) |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | - | - | - | - | - |
| Cash and investments - beginning | - | - | - | - | - |
| Cash and investments - ending | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Cash and Investment Assets - Ending</u> | | | | | |
| Total cash and investment assets - ending | \$ - | \$ - | \$ - | \$ - | \$ - |
| <u>Cash and Investment Fund Balance - Ending</u> | | | | | |
| Total cash and investment fund balance - ending | \$ - | \$ - | \$ - | \$ - | \$ - |

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PRIVATE-PURPOSE TRUST FUNDS
 For the Year Ended June 30, 2006

| | Challenge Foundation Grant | Book Fairs | Totals |
|---|----------------------------------|--------------------|--------------------|
| Additions: | | | |
| Contributions: | | | |
| Other | \$ - | \$ 398 | \$ 398 |
| Deductions: | | | |
| Administrative and general | <u>64,033</u> | <u>398</u> | <u>64,431</u> |
| Deficiency of total additions over total deductions | (64,033) | - | (64,033) |
| Cash and investment fund balance - beginning | <u>64,033</u> | <u>-</u> | <u>64,033</u> |
| Cash and investment fund balance - ending | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| Net assets: | | | |
| Cash and investments | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

21st CENTURY CHARTER SCHOOL AT FALL CREEK
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For the Year Ended June 30, 2007

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets (those reported by governmental activities) are included regardless of their acquisition date or amount. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

| <u>Primary Government</u> | <u>Ending Balance</u> |
|--|---------------------------|
| Governmental activities: | |
| Capital assets, not being depreciated: | |
| Improvements other than buildings | \$ 211,778 |
| Machinery and equipment | <u>898,974</u> |
| Total governmental activities, capital assets not being depreciated | <u>\$ 1,110,752</u> |

21st CENTURY CHARTER SCHOOL AT FALL CREEK
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
June 30, 2007

The School Corporation has entered into the following debt:

| Description of Debt | Ending Principal Balance | Principal and Interest Due Within One Year |
|--------------------------|--------------------------------|---|
| Governmental Activities: | | |
| Notes and loans payable | <u>\$ 1,428,579</u> | <u>\$ 57,490</u> |

21ST CENTURY CHARTER SCHOOL AT FALL CREEK EXAMINATION RESULTS AND COMMENTS

EXTRA-CURRICULAR FUND

The School Corporation created a separate bank account in April 2006, to account for extra-curricular activities at the school at Fall Creek. Some of the various activities for which monies were collected, deposited, and disbursed included concert ticket sales, concession sales, various music and athletic activities, and field trips. The accounting for these activities consisted of posting checks written on a checkbook register. Sometime in 2007, a spreadsheet was created using the bank account schedules to post receipt and disbursement activity. Activity on this account was suspended by School Corporation officials in the fall of 2007.

The extra-curricular account did not use any prescribed accounting methods or forms. Documentation to support the receipts deposited or checks disbursed was not presented for examination. As such, the validity and accountability for some monies received and disbursed could not be established.

The accounting system and procedures detailed herein are based on Indiana Code 20-41-1-1 et seq.

Activity or activities as used herein has reference to conducting any athletic, social, class, or other school function and the collection, custody and disbursement of any money in connection therewith, other than functions conducted solely by any organization of parents and teachers, which does not include public money. The collection, custody, and disbursement of the money for an activity are represented in the accounting records by a fund and the control account for all of the activity funds is designated as the "School Extra-Curricular Account." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

PUBLIC RECORDS RETENTION

The free and reduced lunch applications, School Form 521, for the 2005-2006 school year were not presented for examination.

Indiana Code 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
EXAMINATION RESULTS AND COMMENTS
(Continued)

CONFLICT OF INTEREST

The School Corporation maintained the primary bank account with Regions Bank. Scott Thiems, Senior Vice-President of Regions Bank, is a member of the School Corporation's Board of Directors. A Uniform Conflict of Interest Disclosure Schedule was not filed. A similar comment appeared in prior Report B27053.

Indiana Code 35-44-1-3 states in part:

"(a) A public servant who knowingly or intentionally: (1) has a pecuniary interest in; or (2) derives a profit from; a contract or purchase connected with an action by the governmental entity served by the public servant commits conflict of interest, a Class D felony . . .

(c) This section does not prohibit a public servant from having a pecuniary interest in or deriving a profit from a contract or purchase connected with the governmental entity served . . . (3) if the public servant; (A) is an elected public servant . . . and (B) makes a disclosure under subsection (d)(1) through (d)(6).

(d) A disclosure required by this section must: (1) be in writing; (2) describe the contract or purchase to be made by the governmental entity; (3) describe the pecuniary interest that the public servant has in the contract or purchase; (4) be affirmed under penalty of perjury; (5) be submitted to the governmental entity and be accepted by the governmental entity in a public meeting of the governmental entity prior to final action on the contract or purchase; (6) be filed within fifteen (15) days after final action on the contract or purchase with: (A) the state board of accounts; and (B) . . . the clerk of the circuit court in the county where the governmental entity takes final action on the contract or purchase . . .

(g) A public servant has a pecuniary interest in a contract or purchase if the contract or purchase will result or is intended to result in an ascertainable increase in the income or net worth of: (1) the public servant; or (2) a dependent of the public servant who: (A) is under the direct or indirect administrative control of the public servant; or (B) receives a contract or purchase order that is reviewed, approved, or directly or indirectly administered by the public servant . . ."

PRESCRIBED FORMS - SERVICE RECORDS

Some payroll related prescribed forms were not in use. There were no employee time, attendance, or service records (Teacher's Service Record, Form 514 or Employee's Service Record, General Form 99A) presented for examination for any employees. As a result, we were unable to verify employee attendance and compliance with the School Corporation's compensated absences policy. A similar comment appeared in the prior Reports B23318 and B27053.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

21ST CENTURY CHARTER SCHOOL AT FALL CREEK
EXIT CONFERENCE

The contents of this report were discussed on May 27, 2008, with Kevin Teasley, Chief Executive Officer of Schools; and Dana Johnson, Treasurer. The official response has been made a part of this report and may be found on pages 23 and 24.

21st Century Charter School at Fall Creek
2540 North Capitol Ave.
Indianapolis, IN 46208

State Board of Accounts
302 Washington St. Room E418
Indianapolis, Indiana 46204-2765

**Response to Audit Exceptions
Audit of 2005-2006 & 2006-2007 School Years**

This letter summarizes our position with respect to exceptions noted during your audit of the financial statements of the 21st Century Charter School as of June 30, 2007 and for the two year period then ended.

Indiana charter schools play a unique role in public education. Under Indiana Charter School Law, (IC 20-24 et, seq.), they operate as both public school (*See* IC 20-24-1-4) and non-profit institution (*See* IC 20-24-3-1 and 3-2). While they are exempt under IC 20-24-8-4 from many of the lengthy financial and accounting procedures that are placed on other state entities, they must be – and should be – held appropriately accountable for the public funds that are entrusted to them.

A key provision of the charter school code, IC 20-24-8-4, exempts charter schools from “Indiana statutes applicable to a governing body or school corporation,” except as specifically enumerated in IC 20-24-8-5. One of those exceptions is IC 20-24-8-5(1), which requires that all charter schools be subjected to audit by the State Board of Accounts (SBOA). Furthermore, while the State Board of Accounts is mandated under IC 5-11-1-24 to provide uniform compliance guidelines for examinations and reports, it may not provide guidelines that are contrary to established law.

The 21st Century Charter School at Fall Creek recognizes and appreciates the authority and guidance of the State Board of Accounts, and will endeavor to implement improved guidance and procedures with respect to the first and second exceptions, Extra-Curricular Fund and Public Records Retention. However, the School respectfully restates its disagreements with the following exceptions, as also noted on the Schools 2003-2005 audit. The School believes that while these exceptions would be proper in the audit of a traditional public school, they are not valid in a charter school audit because they do not meet the statutory requirements under IC 20-24-8-4, and are therefore not applicable by law.

Conflict of Interest

As noted, under charter law, the School is not a traditional public school corporation, but rather operates as a non-profit entity. As such, Mr. Thiems’ participation is governed by traditional non-profit law. In accordance with the fiduciary duty of loyalty and the fiduciary duty of care, Mr. Thiems has disclosed his employment with Regions Bank to the Board, and the Board has ratified his participation. No specific forms are required.

Additionally, the exception references IC 35-44-1-3, which refers to elected public servants having a pecuniary interest in the governmental entity that they serve. This exception is not valid in this instance because Mr. Thiems is not an elected official. (*See By-laws.*)

It is also worth noting that the Board of Directors, under a signed management contract, has legally delegated all purchasing and contracting authority to the GEO Foundation, as the School's Educational Management Organization (EMO), and Mr. Thiems has no employment relationship with the EMO.

Finally, a "pecuniary interest" is defined under IC 35-44-1-3(g) as "an ascertainable increase in the income or net worth," and it has not been shown that a lone checking account maintained at Regions Bank has had any ascertainable increase in Mr. Thiems' personal income.

Internal Controls – Board Approval of Claims

This exception notes that vendor and payroll claims (vouchers) did not have Board approval, and is based on the reasoning that "Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management objectives, and compliance with laws and regulations."

This exception does not show how lack of Board approval of claims means that there is a lack of internal controls. In fact, the procedure for approving claims and tracking expenses is quite thorough. The treasurer of the school reviews all claims for payment on a bi-monthly basis before submitting the claims to the President of the Board for a second approval. Furthermore, the entire Board reviews financial statements at nearly every school board meeting. Budgets are thoroughly discussed and compared to actual expenses throughout the year to ensure proper board oversight is maintained, and audit findings are carefully reviewed.

We respectfully suggest that this exception is not warranted.

Prescribed Forms – Service Records

As noted, charter schools are exempt from regulations not enumerated in IC 20-24-8-5. In this case, while the School is appropriately subject to audit, the legislation does not require that certain proscribed forms be used. Maintenance of employee attendance and compensated absence records is required by all employers by the Fair Labor Standards Act. All records relevant to the compensation of our staff are in place.

Respectfully submitted on behalf of the Board of Directors of the 21st Century Charter School at Fall Creek,


Dana L. Johnson, Treasurer